Global FX Monthly Outlook

To be steered by the outcome and tone of the US FOMC meeting

EUR (0.993) ▼

- After rallying above 1.00 against the USD due to falling US home prices and weak consumer confidence data, the EUR fell back below parity, right after the European Central Bank's (ECB) back-to-back 75 basis points (bps) rate hike and the release of better-than-expected US 3Q22 GDP readings. The EUR was mainly pressured by a less hawkish tone struck by the ECB.
- Increasing likelihood of a recession in the Europe, coupled with the elevated inflation rate and weak euro area 3Q22 GDP growth may continue to keep the bloc's currency below parity against the greenback. The EUR may hover around the 0.96-0.98 in November due to the expectation of another super-sized rate hike by the Fed. However, any sign of the Fed slowing its pace of tightening in December will be pro-EUR.

GBP (1.154) ▼

- GBP initially weakened in early October, hovering near the 1.10 level, but began recovering after the exit of Finance Minister Kwasi Kwarteng and Prime Minister Liz Truss, eventually ending the month on stronger footing. GBP bulls returned as the UK government reneged on its broadly unpopular mini-budget and markets hoped that new Prime Minister Rishi Sunak could foster a period of political and financial stability.
- GBP may depreciate slightly in November, primarily due to a further divergence of UK and US monetary policy, as the Fed is expected to raise rates by another 75 bps whilst the Bank of England will likely hike by only 50 bps. With that said, any substantial dovish signal by the Fed could trigger a GBP rally.

AUD (0.640) ▼

- AUD edged up slightly against the USD in October, but the upside was partially capped, mainly due to the less hawkish Reserve Bank of Australia (RBA) following its mere 25 bps hike. This resulted in a widening interest rate differential between the RBA and other major central banks.
- AUD is expected to slide in November, clouded by weakening commodity prices amid a global growth slowdown and subdued economic data among its major trading partners. This will be further weighed by expected rate hikes by the US Fed and China's prolonged zero-COVID policy, leading to further depreciation in the AUD.

NZD (0.580) ▲

- NZD rebounded in October, reversing its losses against the USD, driven primarily by the Reserve Bank of New Zealand's (RBNZ) hawkishness, as it raised policy rates by 50 bps and signalled further rate hikes going forward. The kiwi's performance was also supported by the inclusion of New Zealand government bonds into the FTSE-Russell World Government Bond Index (WGBI).
- The kiwi will likely remain vulnerable to the USD strength in November, but further rate hikes by the RBNZ may continue to support the NZD rally.

Table 1: Currencies Outlook

	Long Term*					
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	OUTLOOK
EURUSD	0.980	1.045	1.057	1.070	1.082	▲
GBPUSD	1.117	1.240	1.258	1.276	1.294	▲
AUDUSD	0.640	0.686	0.692	0.698	0.706	▲
NZDUSD	0.560	0.638	0.646	0.654	0.662	▲
CADUSD	0.723	0.767	0.765	0.765	0.766	▲

	Short Term (Technical)					
	EMA (21)	R1	R2	S1	S2	OUTLOOK
EURUSD	0.987	1.008	1.023	0.974	0.954	▼
GBPUSD	1.134	1.176	1.197	1.119	1.084	▼
AUDUSD	0.640	0.651	0.663	0.624	0.608	▬
NZDUSD	0.574	0.589	0.597	0.564	0.548	▼
CADUSD	0.733	0.740	0.748	0.722	0.712	▲

Signal for Base Currency Trend = ▲ Bullish ▬ Neutral ▼ Bearish
**F=Forecasts for end of period*
Source: Kenanga Research, Bloomberg

EMA (21): 21-day Exponential Moving Average
EMA gives more weight to the most recent periods, places more emphasis on what has been happening lately. Old data points retain a multiplier even if they are outside of the selected data series length.

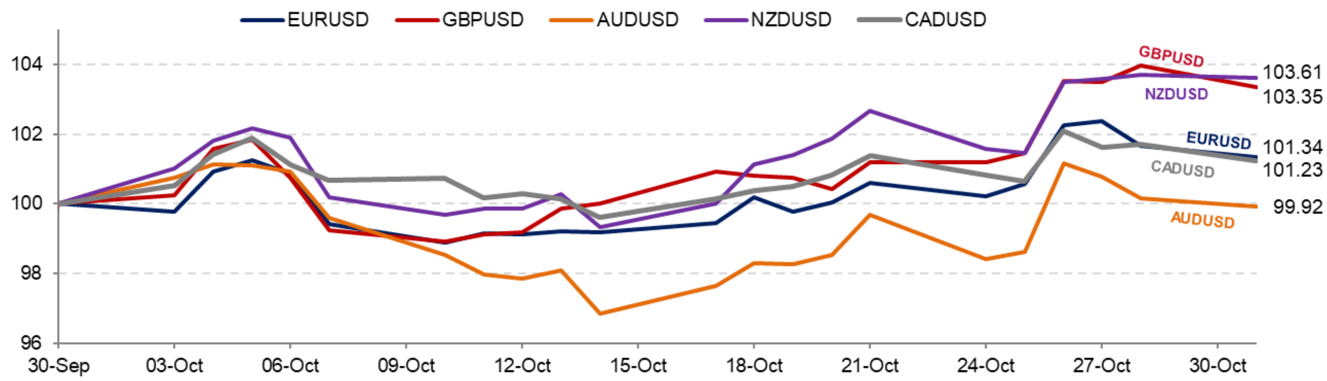
$$EMA = (P \times \alpha) + [Previous\ EMA\ \times (1 - \alpha)]$$

Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/11/2022	AUD	Interest Rate Decision
02/11/2022	NZD	Unemployment (Q3)
02/11/2022	USD	ADP Employment (OCT)
03/11/2022	USD	Interest Rate Decision
03/11/2022	AUD	Trade (SEP)
03/11/2022	EUR	Unemployment (SEP)
03/11/2022	GBP	Interest Rate Decision
03/11/2022	USD	Trade (SEP)
04/11/2022	USD	Non-Farm Payrolls (OCT)
08/11/2022	EUR	Retail Sales (SEP)
09/11/2022	AUD	Consumer Confidence (NOV)
10/11/2022	USD	Inflation (OCT)
11/11/2022	GBP	GDP (SEP)
11/11/2022	GBP	Trade (SEP)
14/11/2022	EUR	Industrial Production (SEP)
15/11/2022	GBP	Claimant Count (OCT)
15/11/2022	EUR	Trade (SEP)
16/11/2022	GBP	Inflation (OCT)
16/11/2022	USD	Retail Sales (OCT)
17/11/2022	AUD	Unemployment (OCT)
18/11/2022	GBP	Retail Sales (OCT)
22/11/2022	NZD	Interest Rate Decision
24/11/2022	USD	FOMC Minutes
30/11/2022	USD	GDP 2nd Estimate (Q3)

Source: Kenanga Research, Trading Economics

Graph 1: Monthly Global FX Indices Trend

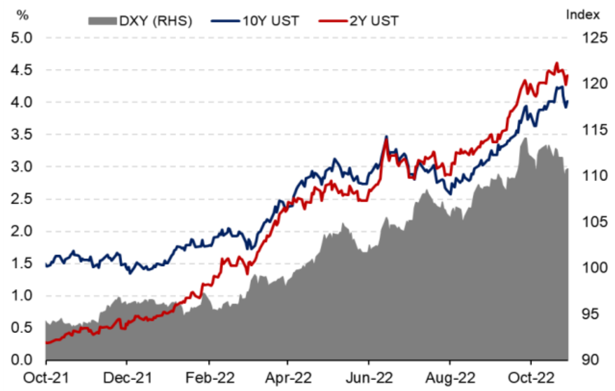


Source: Kenanga Research, Bloomberg

All eyes on the upcoming Fed meeting for signs of a dovish pivot, which would further weaken the USD

- The recent weakness in the USD, with the DXY retreating from a high of 114.1 on Sep 27 down to 110.8 by Oct 31, primarily stems from market expectations that the Fed would soon ease its aggressive rate hikes. Although a 75 bps hike at the upcoming US FOMC meeting (Nov 1 – 2) is almost a certainty, markets have pulled back projections for similarly large hikes going forward. Based on Federal Funds Futures, traders are now pricing in a 46.7% probability of a 50 bps hike in December, down from 51.8% a week ago. Likewise, the policy-sensitive 2Y UST yield fell to a two-week low of 4.274% on Oct 27, signalling a shift in expectations.

Graph 2: US Treasury Yields (UST) and US Dollar Index (DXY)



Source: Kenanga Research, Bloomberg

- However, there is a still a possibility that the Fed could maintain its aggressive tightening stance. The Fed's preferred gauge of inflation, the core PCE price index, climbed to 5.1% in September (Aug: 4.9%), remaining well above the 2.0% target and indicating that underlying inflationary pressures persist. Furthermore, the preliminary reading of US GDP in 3Q22 showed a return to growth (2.6%; 2Q22: -0.6%), which may suggest the Fed can maintain its hawkishness. Hence, should the Fed reiterate its aggressive stance instead, the USD will likely return to an uptrend.
- As such, the upcoming Fed meeting will be key to the dollar's direction as investors await any change in tone by Chairman Jerome Powell. Afterwards, focus will be on the US Non-Farm Payrolls report (Nov 4), with markets expecting a slowdown of only 190.0k jobs added in October (Sep: 263.0k) and a slightly higher unemployment rate of 3.6% (Sep: 3.5%). If such expectations are met it could bolster the Fed's dovish pivot and weaken the USD.

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my